



BEHAVIORAL ECONOMICS & SOCIAL MEDIA: TO WHAT EXTENT DOES CONTENT CONSUMPTION ON INSTAGRAM REELS AFFECT CONSUMER BEHAVIOR AND SPENDING PATTERNS FOR GEN-ZS?

Aanya Patel

Research Scholars Program, Harvard Student Agencies, In collaboration with Learn with Leaders

ABSTRACT

This research explores the impact of Instagram Reels on consumer behavior and spending patterns, particularly within the Gen-Z demographic. The study hypothesizes that Gen-Z, being more active on Instagram, would spend more on products advertised through the platform compared to older generations. A survey was conducted, targeting two groups: those who primarily use Instagram and allocate more of their budget to purchases rather than savings, and those who do not. Contrary to the initial hypothesis, the survey results indicated that older demographics, such as Millennials and beyond, were more likely to purchase items advertised on Instagram, particularly clothes, accessories, and shoes. The study utilizes theories from behavioral economics, including Maslow's Hierarchy of Needs, Nudge Theory, and the theory of Bounded Rationality, to explain consumer choices. However, these theories fall short in accounting for the diverse and unique behaviors of individual consumers. The findings suggest that while Gen-Z engages heavily with Instagram content, it is the older users who are more susceptible to the platform's advertisements. The study highlights the complexity of consumer behavior and the limitations of existing economic theories in predicting spending patterns influenced by social media.

KEYWORDS: Instagram Reels, Gen-Z, Spending, Consumption Habits, Nudge Theory, Gen-Z, Advertisements

INTRODUCTION

Platforms such as Instagram reels, TikTok, and Facebook have been very integral to this new age of marketing, wherein the algorithm favors short-form content, and pushes that type of content to a larger audience¹. This is not only done via the official accounts of corporations on these platforms but also through "influencers": users who have a high follower base, which can be utilized to influence them into buying certain products. Not just restricted to the two methods above, corporations can also pay for ad spaces on these apps as well. Instagram and Facebook offer special tools for advertisers to promote certain material/content on their platforms.

At the end of the research, it is predicted that Gen-Z consumers who frequently watch Instagram reels will spend more on advertised products compared to older generations. To test this hypothesis, a survey was conducted focusing on two groups: those who primarily use Instagram and allocate more of their budget to purchases rather than savings, and those who do not. The hypothesis is that individuals who spend a significant amount of time on Instagram will have higher expenditures on advertised items compared to those who spend less time on the platform.

METHODOLOGY

This study employs a mixed-method approach, combining qualitative and quantitative secondary data to examine Instagram Reels' impact on consumer behavior across age demographics. Quantitative data was gathered through a Google Forms survey of 74 participants, with a mean age of 33, to compare spending habits of frequent Instagram users

versus non-users. Qualitative analysis involved reviewing literature on behavioral economics theories, such as Maslow's Hierarchy of Needs, Nudge Theory, and Bounded Rationality, to contextualize spending patterns and consumer choices. This mixed-method approach integrates measurable survey data with theoretical insights for a comprehensive analysis. Limitations include a small, demographically imbalanced sample and potential self-report biases. Despite these, the methodology offers a nuanced understanding of Instagram Reels' influence on consumer behavior across age groups.

RESULTS AND DISCUSSION

Behavioral Economics

Behavioral economics is a branch of economics closely intertwined with psychology and studies consumer behavior patterns: rational/optimum choices, and their connection with the information available to the consumer.

One such theory, called the *Nudge Theory*, is relevant to this research. Nudge theory is the manipulation of the consumer to buy or consume certain goods/services without any incentives². For example, stores may make fruit more accessible than junk food to *nudge* consumers to buy the fruit. The consumer buys a healthier good without any incentive to. This same theory can be applied to Instagram reels, wherein consumers are shown advertisements for different products as soon as they open the app, nudging them to click the links that allow them to buy the goods or services.

Another theory that is quite important for this research is Maslow's Hierarchy of Needs. Albeit not an economic theory,

the pyramid diagram of the same helps one justify purchases per their physiological needs, safety needs, etc.³

The final theory that will be used to explain consumer choices and spending patterns is the theory of *Bounded Rationality*, which refers to the notion that consumers are often limited by their availability of the information required to make a rational purchase decision, the costliness of acquiring that information, and also the limitations of the cognitive ability to process large amounts of information at one go.⁴

Research & Analysis: Google Form Survey

This survey was distributed to a large number of applicants, ranging from younger ages to older ages, and the medium for this survey was a Google Form. The form stayed active for four days, during which the applicants could not edit their responses after submitting. The mean age of the applicants was 33, and the survey received 74 responses. Of these responses, approximately 27% admitted that they have purchased from Instagram shops, with most being satisfied with the quality of the products they have received. Again, out of the 27%, only 25% of the Gen-Z respondents admitted that they had purchased from the platform. On the contrary, the older demographics that responded to the survey spent a higher proportion of their monthly allowance/income whenever they purchased from Instagram shops and they also had high consumer satisfaction.

A significant reason that the hypothesis proved to be wrong is *Maslow's Hierarchy of Needs*, wherein it was believed that people were the most motivated and productive when their physiological needs, safety needs, love & belonging needs, esteem needs, and self-actualization needs were met adequately. Instagram shops particularly fall into the physiological needs category; people often buy from these types of shops because they offer unique products that often cannot be mass-produced (such as crocheted items, handmade bracelets, etc.), which draws them in further. Although officially, physiological needs are defined to be basic needs, a rational human being would not just satisfy the basic human needs, but also the external wants and pleasures that come from a higher income/allowance. However, one drawback of using this theory is that it was first used to describe patterns of motivation in workers in the mid-1900s, which may not be as relevant today. It is also possible that many consumers buy these products as an 'impulse purchase', not as a genuine want or a need. Even though Maslow's Hierarchy of Needs is good reasoning to explain why rational consumers do what they do, it may not be 'updated' enough to keep up with the evolving generations.

Another reason for the hypothesis being wrong is the *Nudge theory*. It is a psychological manipulation tactic where items that are to be promoted are placed at eye level, or in this case, on the users' for you page (FYP). Considering that most Gen-Z scroll past advertisements, most older generations do not. Because of this slightly different reaction to seeing advertisements on a social media app, the older generations were more susceptible to clicking on advertisements that they watched, compared to Gen-Z, who collectively have no interest in advertisements. Utilizing Nudge Theory by strategically showing more ads

when the app is opened makes it more accessible for the average consumer to notice products and also be convinced to buy them. Such actions taken by advertisers (and sometimes Instagram themselves) nudge consumers to perform actions they otherwise would have no incentive to do. One downside of this theory is that the Instagram algorithm can often be unpredictable, and getting the users to do the 'right' thing (or rather, the predicted action) can be challenging. Sometimes, Nudge Theory can also be used manipulatively, wherein users are influenced to buy things that may not be beneficial to them, or even be scams. Also, it need not always be Nudge Theory in action; Instagram often draws ad results from searches, which may show the user items they were already looking for, disputing this theory and raising the probability of them clicking on the ad.

At last, the economic theory of *bounded rationality* also comes into play. Bounded rationality refers to the consumer's limited cognitive capacity to process knowledge at a fast pace, leading them to make decisions that may not necessarily be very informed or, in other words, *rational*. The advertisements shown on Instagram often do not contain the full information required by the user to make an informed decision or contain too much information to process in a short amount of time. This is very evident by the content shown on Instagram Reels, which is so distracting that the content has been proven to decrease the attention span of those who watch it.⁵ When the information is delivered too fast, the consumer is overloaded with information and is unable to make a rational decision compared to a consumer who is given information at a slower rate. Reels with sped-up music, flashing graphics, and fast-moving animation overwhelm the cognitive system of the consumer, and hence the consumer is more likely to make impulsive choices and decisions.

There is a fault from the users' side as well; like not taking time to process the information, or not finding out additional information by themselves, considering it is a costly process (costly in the sense of spending more time on things that the average consumer usually does not), which causes users to settle for average products compared to the most optimal choice. One reason that the theory of bounded rationality may not work on the younger audience is that younger generations take their time to research the product they are being advertised, in contrast to those who are Millennials or even older, since they are more susceptible to scammy marketing. Often, scams usually target older demographics to take advantage of their limited cognitive capability compared to Gen-Z.

However, it is important to be aware that these theories have been developed without a complete understanding of human behavior (psychologically, we know very little about how the brain functions, and every day a new layer of psychological understanding is being uncovered). It is possible that these theories would not apply to the general public because of how wide the range of human actions is and how different everyone is cognitively.⁶ Additionally, the theories mentioned above may successfully coerce users into buying items impulsively, but they also may not be a good reflection of their true thoughts and choices. Often, Instagram also displays scams— many would

find it distasteful to manipulate consumers, without keeping their best interests in mind. Utility, as a whole, is the utmost thing to any consumer (without them even knowing it), and to capitalize on the average unknowing consumer is inherently wrong. Finally, no consumer ever behaves rationally, even though many theories predict how a rational consumer would act; especially the case with the Nudge Theory and Maslow's Hierarchy of Needs, the theories talk about how a rational consumer might act when exposed to different situations and circumstances. These theories explain how humans would act, but the various limitations and impositions make it difficult to apply them everywhere and make them reliable.

The survey I distributed has several limitations worth noting. First, the sample size was limited to 74 participants, which may not represent the broader population in my area or elsewhere. Second, because the survey was conducted via Google Forms, it was restricted to individuals with a Google account and access to a phone. Although I carefully designed the questions to yield accurate results, there is still a risk of misinterpretation, leading to incorrect or untrue responses. Lastly, the mean age of the participants was 33, resulting in a demographic imbalance, with most responses coming from Millennials. A larger, more diverse sample size would likely provide more accurate and representative results.

CONCLUSION

The initial hypothesis was disproven by the survey conducted. The expectation was that Gen-Z, being more active on Instagram, would be more exposed to advertisements on Instagram Reels and consequently purchase more products advertised on the app or through the app itself. However, the results indicated that it was the older demographic, Millennials and older, who were making more purchases from the platform, typically items such as clothes, accessories, and shoes. The theories of Maslow's Hierarchy of Needs, Nudge Theory, and Bounded Rationality attempt to explain the motives and strategies of a rational consumer. However, they fail to account for the variability in consumer behavior, as most consumers do not exhibit homogeneous actions and have unique thought processes and reactions to different stimuli.

FOOTERNOTES

1. (Cozma, 2024)
2. (Tragakes, 2020, 75)
3. (Hoang, 2022, 146)
4. (Tragakes, 2020, 74)
5. (Harrison & Himelstein, 2023)
6. (Lam et al., 2016)

FOOTERNOTES

1. Bhushan. (2023, July 13). The Impact of Shorts and Reels on Attention Span: Strategies to Enhance Focus. Medium. Retrieved June 22, 2024, from <https://medium.com/@kbhushan19/the-impact-of-shorts-and-reels-on-attention-span-strategies-to-enhance-focus-81dc9461a3>
2. Cozma, I. (2024, May 24). Short-Form vs Long-Form Video Content: EXPERT Tips to Choose the Best Format for Your Marketing Goals. inBeat Agency. Retrieved June 23, 2024, from [https://inbeat.agency/blog/short-form-vs-long-form-video-](https://inbeat.agency/blog/short-form-vs-long-form-video-content)

content

3. Harrison, T., & Himelstein, T. (2023). Short videos, shorter attention. The Lowell. <https://thelowell.org/14372/uncategorized/short-videos-shorter-attention/>
4. Hoang, P. (2022). Business Management 5th Edition. IBID Press.
5. Lam, V., Moskal, E., & Conley, M. (2016, November 8). "We know very little about the brain": Experts outline challenges in neuroscience. Stanford' SCOPE. Retrieved June 23, 2024, from <https://scopeblog.stanford.edu/2016/11/08/challenges-in-neuroscience-in-the-21st-century/>
6. Tragakes, E. (2020). Economics for the IB Diploma Coursebook with Digital Access (2 Years). Cambridge University Press.
7. Witynski, M. (n.d.). What is behavioral economics? UChicago News. Retrieved June 22, 2024, from <https://news.uchicago.edu/explainer/what-is-behavioral-economics>